

Message Text

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TO USDEL SECRETARY PRIORITY

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EXDIS

FOLLOWING REPEAT JIDDA 5423 ACTION SECSTATE DTD 07 AUG

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S E C R E T JIDDA 5423

EXDIS

FOR THE SECRETARY FROM AMBASSADOR

E.O. 11652: GDS

TAGS: PFOR, MASS, JO, US, SA

SUBJECT: JORDAN AIR DEFENSE

REF: JIDDA 5411

1. SHORTLY AFTER TRANSMITTING REFTTEL, POLITICAL UNDERSEC SUMMONED ME URGENTLY TO THE FOREIGN OFFICE TO DISCUSS THE MATTER OF THE PAYMENTS SCHEDULE WHICH IS PRESENTLY HOLDING UP THE PURCHASE AT SAUDI EXPENSE OF THE U.S. AIR DEFENSE WHICH JORDAN DESIRES.

2. DURING THE PAST WEEK OR SO I HAD GENTLY PUSHED THE SAUDIS ON TWO OCCASIONS FOR AN ANSWER TO OUR LATEST MESSAGE TO THEM TO THE EFFECT THAT IT WAS IMPOSSIBLE FOR LEGAL REASONS

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TO ACCEPT THE PAYMENTS SCHEDULE THEY PROPOSED WHICH WOULD

LOWER THE INITIAL PAYMENTS BY DOLLARS 153.7 MILLION OVER THE INITIAL TWO-YEAR PERIOD. THE SAUDIS HAVE BEEN SILENT SINCE MY DELIVERY OF YOUR MESSAGE AND ONLY WHEN THE KING OF JORDAN HAD ANNOUNCED HIS ARRIVAL HERE TODAY DID THEY FEEL A NEED TO BE ABLE TO TELL HIM THAT THEY WERE IN CLOSE DISCUSSION WITH THE AMERICANS ON THE SUBJECT OF GREATEST INTEREST TO HIM.

3. A GOOD FRIEND OF OUR COUNTRY IN THE FOREIGN OFFICE, SHAIKH ABDURRAHMAN MANSOURI, UNDER SECRETARY FOR POLITICAL AFFAIRS, HAD ASKED ME TO CALL IMMEDIATELY TO DISCUSS THE SUBJECT. SHAIKH ABDURRAHMAN DECLARED THAT HE WAS DOING SO AT THE REQUEST OF HIS ROYAL HIGHNESS, PRINCE SAUD AL-FAISAL, WHO WAS IN TAIF. I REMARKED THAT NO DOUBT HRH WAS THERE AWAITING THE ARRIVAL OF THE KING OF JORDAN. SHAIKH ABDURRAHMAN INDICATED THAT WAS THE SITUATION, BECAUSE THE SAUDIS WERE "GETTING READY FOR HIM AND HAD NOT ASKED HIM TO COME." BUT, AS HE WAS INDEED ARRIVING, MY SAUDI FRIEND WENT ON, IT WAS NECESSARY TO TALK ABOUT "OUR JORDAN BUSINESS." I SAID OF COURSE, ADDING THAT I HOPED FOR HIS REPLY TO OUR MOST RECENT COMMUNICATION ON THE SUBJECT. SHAIKH ABDURRAHMAN SAID "WE DO NOT WISH TO PAY ANY INTEREST." I REPLIED THAT I DID NOT RECALL PROPOSING THAT THE SAUDIS PAY INTEREST ON THE TRANSACTION.

4. THE POLITICAL UNDER SECRETARY SAID THEN THAT WHEN WE EXPLAINED THE PROBLEM ANY CHANGE IN OUR PROPOSED PAYMENTS SCHEDULE WOULD CREATE, WE MADE IT CLEAR THAT WE COULD NOT ACCEPT THE SAUDI PROPOSAL FOR DIMINISHED PAYMENTS IN THE INITIAL PERIOD FOR LEGAL REASONS, AND THAT THE ONLY WAY AROUND THAT SITUATION WOULD BE TO BORROW MONEY TO COVER PAYMENTS OUR SCHEDULE REQUIRED, AND SUCH BORROWING WOULD ENTAIL SUBSTANTIAL INTEREST PAYMENTS (\$23 MILLION). MANSOURI ADDED THAT IT WOULD BE ALL RIGHT TO BORROW THE MONEY, BUT THE SAUDI ARABIA GOVERNMENT DID NOT DESIRE TO PAY INTEREST ON ANY MONEY WE MIGHT FEEL IT NECESSARY TO BORROW TO GET THE JORDAN DEFENSE CONTRACTS STARTED.

5. TO BE SURE I UNDERSTOOD HIM, I ASKED MANSOURI IF WHAT HE
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MEANT WAS THAT SAG DOES NOT ACCEPT THE PAYMENTS SCHEDULE THAT WE PROPOSED AND THAT THEY SUGGEST EITHER USG OR SAG BORROW THE MONEY, BUT IF THAT IS DONE THEY WILL NOT PAY INTEREST ON THE BORROWED FUNDS. HE SMILED AND SAID THAT WAS EXACTLY CORRECT. IF WE BORROW THE SUM NECESSARY TO COVER THE LARGER INITIAL PAYMENTS, I SAID, INTEREST WOULD HAVE TO BE PAID BY SOMEBODY. WELL, HE SAID, YOU OWN THE EXPORT-IMPORT BANK. TELL THEM TO GIVE YOU

THE MONEY WITHOUT INTEREST, HE CONTINUED. THEN YOU WOULDN'T HAVE TO PAY, AND NEITHER WOULD WE. IN ANY EVENT, SAG DOES WISH TO PAY INTEREST. WHEN I COMMENTED THAT THE EXPORT-IMPORT BANK, IF I RECALLED CORRECTLY, WAS OBLIGED TO COLLECT INTEREST FOR FINANCING TRANSACTIONS, HE SAID HE DIDN'T UNDERSTAND WHY THAT SHOULD BE SO IF THE USG, WHICH OWNED THE BANK, WANTED TO TAKE THE MONEY. WHY SHOULD THE USG WISH TO PAY INTEREST TO ITSELF? WHEN I SAID THAT THE USG MUST PAY INTEREST ON BORROWED FUNDS, A FAR-AWAY LOOK IN HIS EYES CONVEYED THE MESSAGE THAT I WAS NOT MAKING PROGRESS.

6. MANSOURI THEN TOOK ANOTHER TACK. HE SAID IF WE HAD TO BE DIFFICULT ABOUT BORROWING MONEY AND NOT PAYING INTEREST THE SAG WOULD ARRANGE FOR ANY KIND OF GUARANTEE THAT THE WHOLE SUM WOULD BE PAID WITHIN THE FIVE-YEAR PERIOD. I REMARKED THAT WE SIMPLY NEEDED PAYMENTS IN A CERTAIN ORDER AND OF A DEFINITE MAGNITUDE. IF THE SAUDIS AGREE TO OUR PROPOSAL, THAT WOULD ELIMINATE PROBLEMS OF INTEREST. WE KNOW THAT THEY WILL HONOR THE CONTRACT. HE THEN OFFERED PA PROMISSORY NOTE FROM THE SAUDI ARABIAN MONETARY AGENCY (SAMA) GUARANTEEING PAYMENT WITHIN THE FIVE-YEAR PERIOD. I SAID THAT WOULD NOT SOLVE THE PROBLEM OF THE PAYMENTS SCHEDULE. HE REPEATED THAT THE SAUDI ARABIAN GOVERNMENT DOES NOT WISH TO PAY INTEREST IN THIS ARRANGEMENT. THE PRINCIPLE OF PAYMENT OF THE TOTAL SUM DUE WITHIN A FIVE-YEAR PERIOD HAS BEEN ACCEPTED, SAID SHAIKH ABDURRAHMAN, AND STANDS AS IS. WOULD I PLEASE PROPOSE THE SAUDI "SOLUTION" TO MY GOVERNMENT? I ASSURED HIM I WOULD CONVEY HIS THOUGHTS ANND THAT I WOULD ALSO AWAIT DEPT'S COMMENTS WITH GREAT INTEREST. HE SAID, PLEASE DON'T MENTION INTEREST. WE DON'T WISH TO PAY INTEREST.

7. COMMENT: MAIN SAUDI PURPOSE OF THIS EXCHANGE, IN MY OPINION, WAS SAUDI DESIRE TO ASSURE KING OF JORDAN THAT THEY ARE IN CLOSE TOUCH WITH US AND THAT WE ARE BEING DIFFICULT ABOUT
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PAYMENTS SCHEDULE. UNLESS DEPARTMENT/DOD HAS OVERRIDING REASONS FOR STEPPING UP THE PACE, I SUGGEST I BE AUTHORIZED TO GO BACK TO MANSOURI AFTER TWO OR THREE DAYS AND TELL THEM THAT WE STILL HOLD TO PAYMENTS SCHEDULE WE PROPOSED. I WOULD ADD THAT WHILE WE DID POINT OUT THAT CREDITS TO COVER SHORTFALL IN EARLY PAYMENT MIGHT BE POSSIBLE, WE DO NOT RECOMMEND THAT ROUTE AND IN ANY CASE INTEREST WOULD HAVE TO BE PAID AT OR ABOUT THE AMOUNT INDICATED, I.E., \$23 MILLION. WE COULD THEN SUGGEST CONSULTATION BETWEEN THEM AND THE JORDANIANS ABOUT THE COURSE THEY WISH TO FOLLOW.

8. ALTERNATIVELY, DEPT/DOD MIGHT WISH ME TO SUGGEST THAT SAUDIS INQUIRE IF JORDANIANS WISH TO COVER THE INTEREST PAYMENTS (APPROX. \$23 MILLION) WITH THEIR OWN MEANS IN ORDER TO GET ON WITH THE MATTER.

9. THERE IS ADDITIONAL POSSIBILITY THAT DEPT/DOD MIGHT CONSIDER WHETHER IT IS PRACTICAL TO TRANSFER FROM AID FUNDS ALLOCATED TO JORDAN (IF ANY EXIST) IN AMOUNT SUFFICIENT TO COVER INTEREST PAYMENTS IF DECISION IS MADE TO BORROW.

10. FINALLY, IF THERE IS MORE FLEXIBILITY IN OUR PAYMENTS SCHEDULE THAN WE HAVE INDICATED UP TO NOW, DEPT/DOD MIGHT WISH TO COME FORWARD WITH A COMPROMISE PROPOSAL.
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